

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
EWEB BOARD ROOM  
500 EAST 4<sup>TH</sup> AVENUE  
MARCH 5, 2009  
5:30 P.M.

Commissioners present: Ron Farmer, John Brown, Bob Cassidy, Rich Cunningham, and Joann Ernst.

Others present: Randy Berggren, Jim Origliosso, Sheila Crawford, Cathy Bloom, Dick Helgeson, Mark Freeman, Patty Boyle, Jim Wiley, Steve Newcomb, Susan Eicher, Leslie Kidd, Terry Bequette, Jay Bozievich, Mel Damewood, Dick Varner, Brenda Sirois, Lance Robertson, Ken Beeson, Dave Heuser, Mike McCann, Jeannine Parisi, Eric Hiaasen, and Krista Hince of the EWEB staff; Joshua Proudfeet, Good Company; Linda Henry, City of Eugene minutes recorder.

President Farmer convened the Work Session of the Eugene Water & Electric Board (EWEB).

## **2008 FINANCIAL AUDIT REPORT**

EWEB Assistant Treasurer Cathy Bloom and Moss Adams Audit Manager Julie Desimone, provided the 2008 Financial Audit Report accompanied by a PowerPoint presentation entitled *Eugene Water & Electric Board Presented March 5, 2009*. She did note one significant control deficiency with monitoring and closing of jobs that being the lack of consistent understanding of the monitoring function of projects. She opined that deficiency could be corrected with staff training.

Commissioner Cunningham arrived at 6:40 p.m.

Ms. Desimone explained that the Audit Report presented to the Board was a clean opinion of the financial statements in front of the Board. Under Oregon State law the auditor was required to file an opinion on EWEB's Oregon minimum standards, under which the auditor found no instances or exceptions or non-compliance issues. Ms. Desimone reviewed *The Auditor's Communication to Those Charged with Governance* dated February 22, 2009.

Commissioner Cassidy asked if Ms. Desimone would be comparing deficiencies with previous audits and the current audits, asserting the deficiency with monitoring and closing of jobs appeared to be a new issue.

Ms. Desimone confirmed this deficiency had been observed in the past but had improved over time. This year, the deficiency was more pronounced and deemed worthy of noting in the auditor's report.

Commissioner Brown asked how not closing work orders in a timely manner impacted EWEB's budgeting process.

Ms. Bloom said auditors normally checked large jobs that were opened at year's end to ensure they should still be open. This year, \$50,000 worth of jobs was open at year's end. This was not about over spending and did not impact the budget, but rather about closing jobs and depreciating capital assets in a timely manner. There were policies in place on which new staff needed to be trained.

Commissioner Brown asked how delaying depreciation of major capital assets would affect EWEB's balance sheet.

Ms. Bloom responded that when large, new projects were initiated or bonds were issued, accounting staff were assigned to track and monitor projects. The smaller jobs were the ones that had not been monitored as closely as they should have been.

Mr. Berggren averred that a couple of years ago, monitoring work orders had been identified as a concern by the auditors, and EWEB initiated a strategic push to correct the deficiency. This was again identified as a concern again during the most recent monitoring. EWEB was initiating a monthly monitoring program through formal meetings with supervisors.

President Farmer, referring page 6, paragraph 2 of the *Auditor's Communication to Those Charged with Governance* dated December 31, 2008, read "During the course of our discussions, it came to our attention that this has not been consistently monitored by job coordinators and communicated to management until after the expenditures have been incurred", noted this had been a problem last year and had not been corrected.

General Manager Randy Berggren responded it had been noted in previous audits that jobs were being initiated without being approved, which was the basis of the problem. When the strategic push occurred a couple of years ago around efficiencies and effectiveness of operations, there was an initiative to ensure authority was set up before money was spent. The front end of that was working with project budgets established and authorities established before invoices arrived on major projects.

Ms. Bloom added under the current practice, authorities, purchase orders and contracts were in place before money was spent, but monitoring was not occurring in line with expenditures.

Commissioner Cassidy understood the problem was not happening on large jobs but rather on smaller jobs.

Mr. Berggren emphasized the issue was monitoring and knowing the current status of expenditures and how that related to the Board policy of classification of large and small jobs in a timely manner. Failure to monitor small projects that incurred overspending due to unanticipated events during construction could drive those projects over their classification to major projects which were not included in the major project listing.

Ms. Bloom added there were a variety of interpretations on the definition of monitoring by staff.

Mr. Berggren stated there were stressors in the organization that surfaced with this issue. During the past couple of years, project activity with aging infrastructure had more than doubled. Additionally, 15% of the work force was hired last year through turnover, new hires and promotions, which resulted in many people in new positions doing work they had not done previously. This could lead to a range of understanding on monitoring priorities and the failure to understand the implications of inadequate monitoring. It was important to ensure that staff was fully trained on current practices and how individuals' work tied into EWEB's accounting practices.

Ms. Desimone said several other matters had been raised with management in closed meetings related to small control deficiencies that were addressed under separate cover. Technology comments detailed in the audit letter were related to project management, a technology plan, a disaster recover plan, policies and procedures not being current, platforms supporting core systems lagging behind migrating to new protocols and backup utilities. Moss Adams planned to bring their Information Technology (IT) people into the audit process more frequently to ensure EWEB's IT practices were keeping up with this rapidly changing environment.

Mr. Berggren noted improvements had been made with IT practices as a result of a best practices audit last year.

Responding to Commissioner Cassidy, Mr. Berggren confirmed management reports required by the IT policy would be brought to the Board in June 2009, adding the auditor proposed spot checks throughout the year.

President Farmer asserted the audit report addressed the need to proceed with caution in technology changes, adding it was important to ensure reliable policies were in place and that they were followed during a period of time when policies were being reviewed and revised.

Commissioner Brown noted similar issues with disaster recovery had been identified last year and asked why it had not been rectified.

Information Services Manager Terry Bequette replied the major reason this year was that EWEB encountered a disaster of its own in the data center when it was discovered that the uninterruptible power supply (UPS) was much overloaded. EWEB had been in emergency mode since July 2008 attempting to address power and cooling issues. He added the Roosevelt site represented a better opportunity than the current disaster recovery scenario with an opportunity for planning. The idea would be to have backup available for critical systems.

Mr. Berggren added the implication was that there could not be extra servers, new system capabilities and testing going on. Main systems were running to minimize risk in the event primary power was lost. Installation of a new unit was getting close which would provide the capability to do more testing and move forward. EWEB took a risk adverse position to ensure main business functions would continue.

Customer Services Manager Mark Freeman added the Roosevelt site represented a better opportunity than the current disaster recovery scenario with an opportunity for planning. The idea would be to have backup available for critical systems.

Responding to a question from Commissioner Brown, Mr. Freeman doubted additional disaster recovery testing would occur this year because of the projects and maintenance workload. Additionally, there was not a test network available, and adding it would be yet another project that would get in the way of other projects. The calculated risk was to plan for a better future at the Roosevelt site.

Commissioner Brown asked what the failure to correct an audit recommendation would mean to the organization.

Ms. Desimone said from an audit context, she was required to report significant risks, and this could be a potential significant risk because the disaster recovery plan tests had not been initiated. However, it would not impact the audit unless something happened. It was likely that it would be included in the audit next year. She noted one reason the issue was included in the management letter was identification of the overload and the potential for a catastrophic event. She noted the management letter was a list of recommendations and not everything could be accomplished in one year. It was the prerogative of the Board and management to prioritize and manage the available resources.

Mr. Berggren asserted the management team was working on redefining all of the business processes, setting up a project management office for the IT function, and identifying what the critical resource constraints were. There were over 140 IT projects on the work plan. The next report to the Board was scheduled for June 2009.

Mr. Freeman explained EWEB did have a disaster recovery plan and had a contract with a provider. In the event of a meltdown on the fourth floor, all data was backed up and kept off site, so the data would be available.

Ms. Desimone stated since the auditors first began working with staff in November, the issues identified had been taken very seriously by staff and they were moving in the right direction.

President Farmer asked if EWEB needed to change its approach to bad debt in light of the current state of the economy.

Ms. Desimone had looked at bad debt and talked with management. She was satisfied management had made the right estimates taking into account current factors, and would need to continue to monitor it closely.

President Farmer asked if the number one concern identified in last year's audit had been adequately addressed.

Ms. Desimone said a significant deficiency identified last year was related to industrial revenue. Changes had been made to the calculation and monitoring of industrial bills by fiscal services and no deficiencies were noted in the current year.

Responding to a question from President Farmer, Ms. Desimone confirmed that she was comfortable with EWEB's third party trade agreements. It was noted that those decisions were made in a timely manner. She would feel more comfortable when the new system was implemented and it was not spreadsheet driven.

Commissioner Brown asked if the accounting industry was having conversations about reestablishing the benchmarks and growth rates over the next five to ten years to address unfunded liabilities.

Ms. Desimone said the issue had been discussed and she would be looking at how management assessed long and short term risks. From an audit perspective, she would assess if reasonable rates of return and make sure it was based on the industry standard.

The Board took a short break.

## **SENECA PROJECT—PRELIMINARY SUSTAINABILITY ANALYSIS**

President Farmer reconvened the Board meeting at 6:30 p.m.

Senior Resource Analyst Brenda Sirois and Project Manager for the Seneca Cogeneration Project provided the staff report. Staff had provided a background report summarizing key points the Board gave to staff with on February 17, 2009. She was confident staff had been responsive to the Board's concerns. The goal of tonight's presentation was to continue to drill deeper into the project by sharing recent findings and facts about the project which would be done in the context of a sustainability framework. She introduced team members Joshua Proudfoot of Good Company and Steve Newcomb, EWEB Environmental Manager.

Ms. Sirois, Mr. Newcomb and Mr. Proudfoot offered a PowerPoint presentation entitled *Seneca Sustainable Energy Cogeneration Project: Overview and Preliminary Sustainability Results—March 5, 2009*, a paper copy of which was distributed to Board members and others present.

Commissioner Cassidy stated the project was a good source of electricity and needed in the community. He noted 2002 emissions information was used and questioned if more current information was available.

Mr. Proudfoot replied nothing was available on the internet. Lane Regional Air Pollution Authority (LRAPA) may have more recent numbers but nothing was available. Ms. Sirois added staff would try to find that information.

Commissioner Cassidy thought the difference between Eugene/Springfield and all of Lane County related to field burning must be significant. He asked how monitoring would occur.

Mr. Newcomb said continuous monitoring was limited to carbon monoxide exhaust monitoring of temperature, exhaust flow rate, oxygen, NOx, and opacity. He agreed to find out more information.

Responding to a question Mr. Berggren Mr. Helgeson said typically the permit would establish parameters that would need to be monitored continuously that were recorded for reporting requirements. He did not know the parameters of a permit for this project and whether it would be subject to monitoring.

Commissioner Cassidy asked how much this project would add to the current pollution in Eugene/Springfield and Lane County, and what would be the cumulative effect as other mills began using this process.

Mr. Proudfoot said dispersed open burning was much more intense than the proposed system.

President Farmer wanted an overview from a cumulative perspective, and asked if ten cogeneration plants could function effectively in Eugene. He understood the number the community could support was limited based on availability of raw materials.

Mr. Proudfoot noted the amount of material availability was contingent on the amount of wood sold worldwide and nationwide.

Commissioner Brown asked staff to research the following issues:

- Who said biomass was climate neutral and what were their qualifications
- What was factor/ratio in comparing the amount of methane released into the atmosphere between composting piles versus biomass
- What happened if they ran out of water
- What monitoring did LRAPA do
- What portion of the community need for essential services could this provide in the event of a major disaster such as an earthquake and all other systems were down

Commissioner Ernst said even with all of the available technology, toxins would be discharged into the air and people would breathe them. She understood the biomass plant was an opportunity to take advantage local central power production which had the potential to reduce power line losses, create jobs for the local economy, diversify the regions energy supply, assist in keeping electric rates affordable and as a possible source of renewable power. She wanted to know what Seneca would do to mitigate the negative effects. She asked if Seneca could guarantee the following to EWEB customers:

- Using maximum available technology to further reduce any impact to the water and to the community rather than the best management practices
- Seneca needed to work with LRAPA and others to continually monitor for substances including as many hazardous air pollutants as possible including dioxins
- Boiler particulate exhaust gases should be monitored
- Seneca should put in writing the types of wood and the percentages of each they planned to use, including plant waste sawdust, slash from the fields and other purchased products from other fields
- Seneca should put in writing it would not move to a 40 year rotation in the harvesting of land and would not purchase wood waste that came from other lands on a 40 year rotation
- What was the plan for shutting down if the plant exceeded its emission standards or ran out of water

Commissioner Ernst had the following comments and questions:

- Did not believe digging a well and running at capacity was sustainable
- Seneca must be required to shut the well down if it impacted anyone else's water rights
- She asked what was the source of urea and ammonia and how would it be stored. Would use of urea and ammonia cause unpleasant odors in the area and was it considered safe

- Some of the calculated levels of air pollutants calculated for the permit bordered allowable levels
- Seneca should give financial support to LRAPA in its development of an ambient air monitoring program in northwest Eugene

Commissioner Cunningham asked the following:

- Did the Seneca proposal meet or exceed the regulations set forth by LRAPA, the Environmental Protection Agency (EPA) and the Oregon Department of Environmental Quality (DEQ).

Commissioner Cunningham said he recently toured the site with Commissioner Brown. He did not believe the manager of the facility would pollute the air to the extent where it would become hazardous for his children who lived and went to school in the Bethel area. He remarked on the cleanliness of the facility which was a credit to Mr. Jones, the Seneca employees and site management. He had received e-mails that both supported and opposed the proposed facility. In response to questions raised, Commissioner Cunningham had been assured Seneca would not be burning tires. He was confident Seneca would take the necessary precautions to make the facility a safe one and meet their permit requirements. He opined the EWEB Board was not a permitting agency but was considering purchasing the power generated at the facility. The Board's job was to get a good deal on the power for the rate payers. In response to the e-mails he received, he had asked for and received no evidence to show him this facility was a danger to the community. Unless he received such information, he had no reason not to vote against the proposal.

Commissioner Cassidy said it was important for any contract between Seneca and EWEB to ensure EWEB would not be involved in a lawsuit if someone became ill from pollutants discharged from the facility.

Responding to a question from Commissioner Cassidy, Mr. Proudfoot said it was not a good idea from an emissions standpoint to haul materials from further away than necessary. Companies traded slash with others to reduce transportation costs.

President Farmer, as a EWEB Commissioner would not try to be in the position of industry regulator. He suggested Commissioner Ernst should lobby for changes with the correct regulatory agency. He would look at this in the same way that EWEB bought power from the Bonneville Power Administration (BPA), ran its own cogeneration plant and had emissions on its own boilers, to ensure this was the type of energy EWEB should have in its portfolio.

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Commissioner Ernst wanted to ensure that if energy sold to EWEB customers claimed to be green, it should be green.

President Farmer adjourned the work session at 7:35 p.m.

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Assistant Secretary

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President